

DOCUMENT RESUME

05041 - [60525436] (~~Restricted~~)

Released 3/16/78

[Review of Selected Office of Minority Business Enterprise Activities]. (ED-78-51; B-149685. February 16, 1978. 4 pp. + 2 enclosures (7 pp.).

Report to Sen. Charles H. Percy; by Henry Eschwege, Director, Community and Economic Development Div.

Issue Area: Domestic Housing and Community Development Programs: Focus and Grants to Business (2110).

Contact: Community and Economic Development Div.

Budget Function: Commerce and Transportation: Other Advancement and Regulation of Commerce (403).

Organization Concerned: Office of Minority Business Enterprise; Small Business Administration.

Congressional Relevance: Sen. Charles H. Percy.

A preliminary inquiry into the operations and efficiency of the Office of Minority Business Enterprise (OMBE) was conducted to determine whether the following information could be obtained: the number and percentage of minority group members employed by OMBE, a State-by-State breakdown of the number and amount of SBA loans obtained by OMBE-funded organizations for minority-owned businesses, the average cost to the taxpayer for each business established due to OMBE efforts, and the number of OMBE-assisted companies that have become profitable and the number sustaining losses. During fiscal years (FYs) 1972 through 1977, the number of minority members employed by OMBE ranged from 152 to 206, representing percentages from 64.7 to 80.2. The State-by-State breakdown was available only for FYs 1976 and 1977, and data for other years were incomplete. The average cost to OMBE for servicing each client totaled \$1,701 per year. OMBE does not collect data on profitability, and there was not enough data to determine the payment status of Small Business Administration loans made to OMBE-assisted companies. (HTW)



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20348

RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by COMMUNITY AND ECONOMIC DEVELOPMENT Congressional Relations.

RELEASED FEB 16 1978
3/16/78

B-149685

The Honorable Charles H. Percy
United States Senate

Dear Senator Percy:

By letter dated May 26, 1977, you requested that we review the operations and efficiency of the Department of Commerce's Office of Minority Business Enterprise (OMBE). On June 16, 1977, the assignment was discussed with your office. Several requirements in your letter were either deleted or revised and, as a result, we agreed to make a preliminary inquiry at OMBE and the Small Business Administration (SBA) to determine whether the following information could be obtained:

- The number and percent of minority group members employed by OMBE.
- A State-by-State breakdown of the number and amount of SBA loans obtained by OMBE-funded organizations for minority-owned businesses.
- The average cost to the taxpayer for each business established due to OMBE efforts.
- The number of OMBE-assisted companies that have become profitable as well as the number presently sustaining losses.

The results of our inquiry at OMBE and SBA follow.

EMPLOYMENT DATA

The number and percent of minority group members employed by OMBE for fiscal years 1972 through 1977 are summarized on the following page.

CED-78-51
(07779)

<u>Fiscal year</u>	<u>Number of minority employees</u>	<u>Percent of minority employees in OMBE</u>	<u>Total number of OMBE employees</u>
1972	156	64.7	241
1973	186	75.9	245
1974	206	76.0	271
1975	190	75.1	253
1976	152	71.7	212
1977	162	80.2	202

Employment data is not available for fiscal years 1969 through 1971. However, an OMBE official estimated that the average number of employees for the period was about 30.

The ethnic composition and sex of OMBE minority group employees is specified in enclosure I.

SBA LOANS RECEIVED BY OMBE-ASSISTED BUSINESSES

The State-by-State breakdown of the number and amount of SBA direct and guaranteed loans obtained by OMBE-funded organizations for minority-owned businesses is available only for fiscal years 1976 and 1977. (See enc. II.) OMBE's information system did not collect data by State on SBA loans obtained for OMBE-assisted businesses in prior years. According to OMBE officials, records on SBA loans obtained for minority-owned businesses before fiscal year 1976 consist of unsummarized and incomplete data. Since OMBE expressed little confidence in the records' completeness we did not pursue this matter.

AVERAGE COST TO OMBE FOR SERVICING EACH CLIENT

OMBE's accounting system does not break out the costs associated with assisting the establishment of businesses. Therefore, data is not available that would permit calculation of the average cost to the taxpayer for each business established because of OMBE efforts. We agreed with your office to instead provide the average OMBE cost of servicing each client business by dividing the funds that OMBE obligated by the total clients that received OMBE assistance. This data is presented in the table on the following page for fiscal years 1972 through 1977. (Data is not presented for prior years because fiscal year 1972 was the first year that OMBE provided management and technical assistance through OMBE-funded organizations.)

<u>Fiscal year</u>	<u>OMBE obligations</u> (thousands)	<u>Clients receiving assistance</u>	<u>Average cost to OMBE for servicing each client</u>
1972	\$ 43,519	15,637	\$2,783
1973	36,212	20,600	1,758
1974	48,975	24,683	1,984
1975	62,983	33,137	1,901
1976			
(note a)	58,846	43,880	1,341
1977	<u>58,035</u>	<u>43,516</u>	1,334
Total	<u>\$308,570</u>	<u>181,453</u>	\$1,701

a/Fiscal year 1975 data includes data for the transition quarter.

The average cost of servicing clients in fiscal year 1975 and prior years is understated to some extent because the data on clients receiving assistance during this period includes some businesses that were expected to receive assistance but did not. An OMBE official said that the problem had been corrected and that fiscal year 1976 and 1977 data is correct.

PROFITABILITY OF OMBE-ASSISTED COMPANIES

We learned that OMBE does not collect data on the number of clients that are operating profitably or that are sustaining losses. Therefore, your office agreed that we were to attempt to determine the payment status of SBA loans made to OMBE-assisted companies and whether OMBE-assisted 8(a) contractors had defaulted on their contracts. We had hoped that this information would give some indication of the profitability of at least this portion of OMBE clients.

To determine the status of SBA loans and 8(a) contracts made to OMBE clients, we had to match the names of OMBE clients, SBA borrowers, and 8(a) contractors on the records of SBA and OMBE. Because businesses are identified differently on the records of the two agencies, we tested the feasibility of matching by asking SBA to find loan and contract records for 106 OMBE clients located in Illinois that, according to OMBE, received SBA loans or 8(a) contracts in fiscal year 1976 and the transition quarter. SBA could only identify

B-149685

54 (51 percent) of these clients in its files. We felt that this data was insufficient to make reliable general statements about the success of OMBE clients who were also SBA borrowers or 8(a) contractors. Accordingly, we did not expand this search nationwide.

One of the best measures of OMBE's effectiveness would be its clients' profitability. Because of OMBE's failure to collect profit data, it lacks information essential to measuring the effect of its assistance. This problem is discussed in our recent report to the Congress on OMBE ("The Office of Minority Business Enterprise Could Do More to Start and Maintain Minority Businesses," CED-77-136, Nov. 10, 1977), wherein we stated that OMBE should reassess its position on obtaining profit data on its clients.

We plan no further distribution of this report; however, after 30 days it will be available to anyone who may request it.

Sincerely yours,



Henry Eschwege
Director

Enclosures - 2

ETHNIC COMPOSITION AND SEX OF OMBE EMPLOYEES
(FISCAL YEARS 1972 THROUGH 1977)

<u>Fiscal Year</u>	<u>Black</u>	<u>Spanish speaking</u>	<u>Indian</u>	<u>Oriental</u>	<u>Total minority employees</u>	<u>Percent minority employees are of OMBE employees</u>	<u>Nonminority employees</u>	<u>Total number of OMBE employees</u>
<u>1972</u>								
Male	60	18	1	-	79	71.8	31	110
Female	70	5	-	2	77	58.8	54	131
Both M/F	130	23	1	2	156	64.7	85	241
<u>1973</u>								
Male	73	21	4	-	98	86.7	15	113
Female	68	17	1	2	88	66.7	44	132
Both M/F	141	38	5	2	186	75.9	59	245
<u>1974</u>								
Male	81	22	4	-	107	86.3	17	124
Female	76	20	1	2	99	67.3	48	147
Both M/F	157	42	5	2	206	76.0	65	271
<u>1975</u>								
Male	64	22	3	-	89	69.5	39	128
Female	82	17	1	1	101	80.8	24	125
Both M/F	146	39	4	1	190	75.1	63	253
<u>1976</u>								
Male	57	19	2	1	79	66.4	40	119
Female	61	10	1	1	73	78.5	20	93
Both M/F	118	29	3	2	152	71.7	60	212
<u>1977</u>								
Male	61	22	1	-	84	77.8	24	108
Female	65	10	1	2	78	83.0	16	94
Both M/F	126	32	2	2	162	80.2	40	202

SBA LOANS OBTAINED BY OMBE-FUNDED ORGANIZATIONS
FOR MINORITY-OWNED BUSINESSES

<u>States/other jurisdictions</u>	<u>Number of direct loans</u>	<u>Value of direct loans</u>	<u>Number of guaranteed loans</u>	<u>Value of guaranteed loans</u>
<u>Fiscal year 1976</u>				
Alabama	22	\$ 623,550	14	\$ 577,500
Alaska	2	100,000	-	-
Arizona	16	584,150	18	1,350,267
Arkansas	21	408,490	25	748,415
California	143	5,356,299	512	27,641,348
Colorado	43	1,682,427	27	1,519,100
Connecticut	13	363,735	17	1,319,800
Delaware	-	-	-	-
District of Columbia	37	2,010,849	47	4,122,839
Florida	76	1,458,688	40	1,748,500
Georgia	14	373,256	31	1,438,035
Hawaii	1	40,500	4	480,000
Idaho	-	-	-	-
Illinois	36	\$1,179,550	39	\$3,747,100
Indiana	3	1,341,936	3	537,999
Iowa	1	15,700	-	-
Kansas	14	292,094	23	954,245
Kentucky	7	145,500	12	298,059
Louisiana	38	1,353,430	59	4,355,267
Maine	-	-	-	-

ENCLOSURE II

ENCLOSURE II

<u>States/other jurisdictions</u>	<u>Number of direct loans</u>	<u>Value of direct loans</u>	<u>Number of guaranteed loans</u>	<u>Value of guaranteed loans</u>
Maryland	5	\$311,000	7	\$420,800
Massachusetts	9	639,564	16	847,800
Michigan	15	726,150	22	1,187,500
Minnesota	3	61,200	3	43,663
Mississippi	19	613,100	3	123,000
Missouri	23	634,345	31	875,900
Montana	-	-	-	-
Nebraska	10	170,500	6	228,000
Nevada	6	88,000	13	570,188
New Hampshire	-	-	-	-
New Jersey	33	6,979,900	66	4,757,508
New Mexico	32	1,170,007	114	6,607,543
New York	76	3,010,932	121	13,544,400
North Carolina	27	1,031,866	11	1,058,000
North Dakota	-	-	-	-
Ohio	46	1,681,410	15	937,000
Oklahoma	9	271,660	21	1,416,945
Oregon	-	-	-	-
Pennsylvania	22	787,000	14	882,100
Puerto Rico	57	1,246,500	109	8,506,754
Rhode Island	-	-	-	-

ENCLOSURE II

ENCLOSURE II

<u>States/other jurisdictions</u>	<u>Number of direct loans</u>	<u>Value of direct loans</u>	<u>Number of guaranteed loans</u>	<u>Value of guaranteed loans</u>
South Carolina	5	\$ 195,500	1	\$ 13,200
South Dakota	2	36,800	2	95,000
Tennessee	4	137,000	48	1,273,281
Texas	174	4,950,393	354	20,711,329
Utah	-	-	-	-
Vermont	-	-	-	-
Virgin Islands	-	-	-	-
Virginia	20	992,185	10	361,000
Washington	16	571,400	15	484,114
West Virginia	2	80,000	1	28,000
Wisconsin	-	-	4	81,600
Wyoming	-	-	-	-
Total	<u>1,107</u>	<u>\$43,725,566</u>	<u>1,873</u>	<u>\$115,893,099</u>

<u>States/other jurisdictions</u>	<u>Number of direct loans</u>	<u>Value of direct loans</u>	<u>Number of guaranteed loans</u>	<u>Value of guaranteed loans</u>
<u>Fiscal year 1977</u>				
Alabama	51	\$1,404,106	19	\$ 797,197
Alaska	5	233,000	-	-
Arizona	48	1,451,701	40	3,341,200
Arkansas	16	405,300	30	1,015,000
California	181	9,067,944	553	31,808,309
Colorado	34	1,914,440	45	3,186,000
Connecticut	16	646,584	13	775,000
Delaware	-	-	-	-
District of Columbia	14	620,600	15	2,328,800
Florida	134	2,757,777	24	1,526,500
Georgia	69	2,023,940	49	3,090,868
Hawaii	2	32,000	5	165,500
Idaho	-	-	-	-
Illinois	22	675,000	15	1,429,700
Indiana	5	407,000	3	287,000
Iowa	-	-	-	-
Kansas	2	109,600	16	869,430
Kentucky	7	114,500	5	106,000
Louisiana	73	2,622,866	53	2,639,776
Maine	1	180,000	-	-

ENCLOSURE II

ENCLOSURE II

<u>States/other jurisdictions</u>	<u>Number of direct loans</u>	<u>Value of direct loans</u>	<u>Number of guaranteed loans</u>	<u>Value of guaranteed loans</u>
Maryland	32	\$1,671,176	10	\$ 1,450,000
Massachusetts	7	336,614	13	886,150
Michigan	20	764,070	10	1,085,000
Minnesota	3	112,900	2	206,000
Mississippi	12	1,057,730	12	832,404
Missouri	38	1,140,392	42	1,958,948
Montana	-	-	8	219,000
Nebraska	6	183,000	3	134,000
Nevada	22	522,850	21	1,602,000
New Hampshire	-	-	-	-
New Jersey	46	1,952,200	71	6,350,000
New Mexico	35	1,138,245	81	6,151,550
New York	125	4,383,648	93	7,333,300
North Carolina	30	783,020	18	1,105,112
North Dakota	-	-	-	-
Ohio	63	3,003,269	27	1,771,794
Oklahoma	9	242,017	23	1,156,716
Oregon	2	40,600	3	138,650
Pennsylvania	11	323,800	44	1,981,875
Puerto Rico	65	2,018,100	201	17,080,100
Rhode Island	-	-	-	-

ENCLOSURE II

ENCLOSURE II

<u>States/other jurisdictions</u>	<u>Number of direct loans</u>	<u>Value of direct loans</u>	<u>Number of guaranteed loans</u>	<u>Value of guaranteed loans</u>
South Carolina	26	\$ 628,100	7	\$ 328,500
South Dakota	4	162,950	-	-
Tennessee	7	331,000	32	1,002,542
Texas	271	11,158,156	428	29,396,674
Utah	17	607,900	4	497,000
Vermont	-	-	-	-
Virgin Islands	-	-	1	68,000
Virginia	29	1,242,060	28	2,022,425
Washington	7	226,280	11	489,113
West Virginia	7	186,800	2	375,000
Wisconsin	4	106,700	1	40,000
Wyoming	-	-	2	130,000
Total	<u>1,578</u>	<u>\$58,940,245</u>	<u>2,083</u>	<u>\$136,158,133</u>